

GFOA - Missouri

Preparing An Internal Control Manual

May 3, 2012

Ron Steinkamp, CPA, CIA, CFE
314.983.1238
rsteinkamp@bswllc.com



- Facilities
- Cell phones
- Presentation materials
- Participation



Questions

- Who has an IC manual?
 - If you do, why do you?
 - If you don't, why not?
- What are the benefits?
- What would you like to learn from this presentation?



*"I am sure you'll appreciate
our new policy."*

Agenda

- GFOA best practice
- COSO internal control framework
- Importance of having an internal control manual
- Developing an internal control manual
- Components of an internal control manual
- Examples
- Guidance/resources
- Questions

GFOA Best Practice

Documentation of Accounting Policies and Procedures

- Every government should document
- Appropriate level of management should promulgate
- Review and update no less than once every three years
- Update changes as they occur
- Assign employee duty of overseeing the process



Cont.

- Documentation should:
 - Be readily available to all employees who need it
 - Delineate the authority and responsibility of all employees, especially the authority to authorize transactions and for the safe-keeping of assets and records
 - Include which employees are to perform which procedures
 - Be described as actually performed
 - Explain the design and purpose of control related procedures to increase employee understanding and support for controls



Cont.

Enhancing Management Involvement with IC

- Financial managers obtain the information and training needed to take responsibility for internal control
- Obtain a sound understanding of the essential components of a comprehensive framework of internal control as set forth by the **Council of Sponsoring Organizations (COSO)**
- Employees responsible for internal control receive the information and training needed to fulfill their responsibilities



Cont.

- Document internal control procedures
- Procedures include practical means for employees to report management override of controls
- Periodically evaluate relevant internal control procedures to ensure they are:
 - Adequately designed
 - Have been implemented
 - Function as designed



COSO INTERNAL CONTROL FRAMEWORK

What is COSO?



COMMITTEE OF SPONSORING
ORGANIZATIONS OF THE TREADWAY COMMISSION

- Issued the Internal Control Integrated Framework in 1992
 - Established a common definition of internal control
 - Provided a standard (criteria) to assess the effectiveness of internal controls
 - The standard for internal control recognized by the U.S. accounting profession

Internal Control Definition

- Process
- Effected by people
- Provide reasonable assurance regarding the achievement of objectives related to:
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations



COSO Control Categories

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring



Cont.

Control Environment

- Sets the tone of an organization
- Provides discipline and structure
- Factors include:
 - Integrity and ethical values
 - Commitment to competence
 - Organizational structure
 - Assignment of authority and responsibility
 - Human resource policies and practices



Cont.

Risk Assessment

- Identify risks, including fraud risks, that could impede the achievement of objectives
- Analyze risks
- Formulate a risk management approach



Cont.

Control Activities

- The policies and procedures that help mitigate risks
- Common control categories include:
 - Tracking achievements to plans
 - Monitoring performance measures and indicators
 - Physically securing and safeguarding vulnerable assets
 - Ensuring accuracy and completeness of information processing systems
 - Segregating key duties and responsibilities to reduce the risk of error or fraud
 - Ensuring transactions are authorized, properly classified, and promptly recorded



Cont.

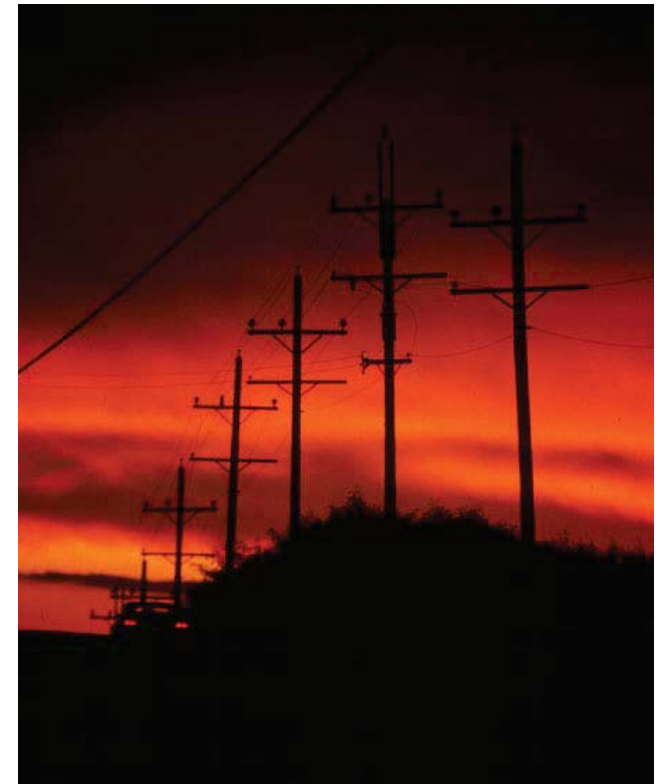
- Limiting access to resources and records and establishing accountability for their custody
- Documenting all transactions
- Ensuring transactions are conducted in accordance with applicable laws and regulations



Cont.

Information and Communication

- Management should receive information in a timely manner and in a format that allows proper execution of internal controls and operational responsibilities
- Communication should be useful, reliable and continuous



Cont.

Monitoring

- Assess the quality of performance of internal controls over time
- Includes:
 - Ongoing monitoring – regular management and supervisory activities
 - Separate evaluations – internal and external audits
 - Mechanism to ensure prompt resolution of audit findings and recommendations
 - Management is responsive to recommendations aimed at strengthening controls



Why Have an Internal Control Manual

Accountability

- Government officials are entrusted by the public to:
 - Operate in an efficient and effective manner
 - Properly handle and safeguard funds
 - Comply with laws and regulations
 - Achieve results for which they were authorized/funded
- Must be accountable to the public



A good up to date IC Manual that is properly implemented and followed provides reasonable assurance that risks are properly identified, managed, monitored and reported on through control activities.

Con't.

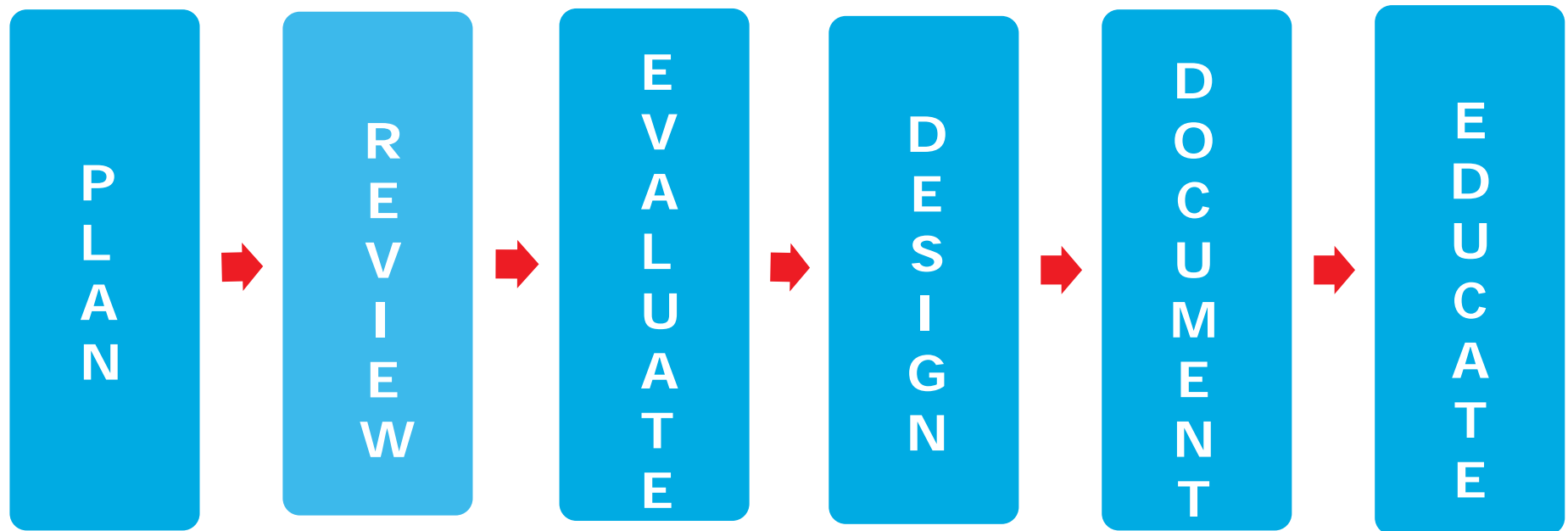
Sound Management Practice

- Maintain control
- Describe the method and systems of management
- Comply with regulations
- Educate employees
- Provide for continuity
- Preparation for audit



Developing an Internal Control Manual

Approach



Cont.

Plan

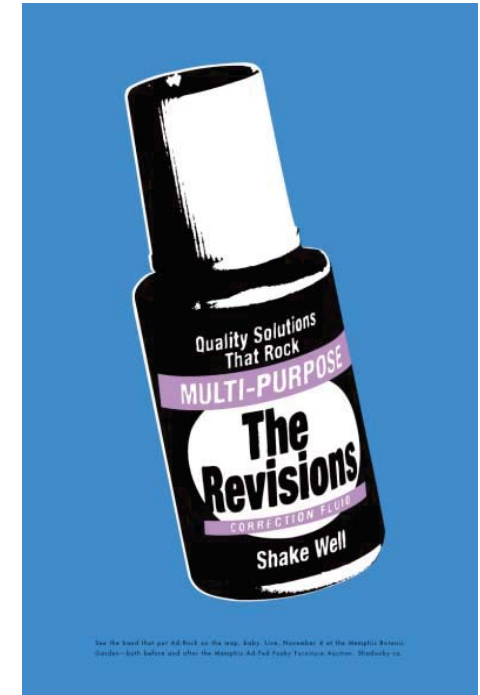
- Select the team and leader
- Establish objectives
- Determine format and contents of the IC manual and contents
- Determine processes to document
- Establish a time line
- Assign team responsibilities
- Schedule team check points



Cont.

Review

- Review current policies and procedures
- Walk through “as is” process with process owner
- Document “as is” process
- Validate “as is” process documentation with process owner
- Make changes as appropriate



Cont.

Evaluate

- Identify existing internal controls in "as is" process
- Determine adequacy and effectiveness of existing internal controls
- Identify control gaps – missing controls
- Discuss with process owner and seek input on design of controls



Cont.

Design

- Design process with adequate and effective controls
- Walk through re-design process with process owner
- Make changes as necessary



Cont.

Document

- Document process and related controls
- Compile IC Manual with all processes



Cont.

Educate

- Train & roll-out to all effected employees
- Part of new hire orientation
- Refresher training



Cont.



Tips

- Start with a flexible table of contents
- Keep it simple, short and uncomplicated
- Determine consistent format and layout
- Date each policy and procedure included in the manual
- Include page numbers

Components of an Internal Control Manual

Internal Control Manual

- **Introduction**
- **Fraud**
- **Risk assessment**
- **Information & communication**
- **Internal control basics**
- **Control environment**
- **Control activities**
- **Monitoring**

Cont.

Introduction

- Purpose
- Scope
- Authority
- How to use the manual
- Definitions



Cont.

Internal Control Basics

- Define internal control
- Control framework
- Importance of controls
- Management's responsibility for internal controls



Cont.

Fraud

- Definition
- Characteristics
- Reporting responsibility
- How to report



Cont.

Control Environment

- Definition
- Responsibility
- Expectations related to:
 - Integrity and ethical values
 - Commitment to competence
 - Management philosophy and operating style



Cont.

- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and procedures



Cont.

Risk Assessment

- Definition
- Responsibility
- Expectations related to:
 - Establishment of objectives
 - Risk identification
 - Risk analysis
 - Managing risk during change



Cont.

Control Activities

- Definition
- Responsibility
- Control types:
 - Approvals, authorizations and verifications
 - Reconciliations
 - Performance reviews



Checklist

Cont.

- Security of assets
 - Segregation of duties
 - IT – general controls
 - IT – application controls
-
- Identify procedures and controls within critical cycles/processes such as:
 - Revenue
 - Procurement
 - Disbursement
 - Payroll



Cont.

- Treasury
- Financial reporting
- Fixed assets
- Regulatory
- Information systems



Cont.

Information & Communication

- Definition
- Responsibility
- Expectations related to:
 - Information
 - Communications



Cont.

Monitoring

- Definition
- Responsibility
- Expectations related to:
 - Ongoing monitoring
 - Evaluations
 - Audit resolution



Example Internal Control Manuals

Example IC Manuals

- IC Policy Manual – North Carolina
- IAC Manual – Ohio Counties
- Atlantic Beach NC Internal Control Policy
- Fin Mgmt Controls Manual - Example
- Understanding Internal Control
- Internal Control Manual



Guidance/Resources

- COSO – www.coso.org

- GAO – www.gao.gov
 - www.gao.gov/products/AIMD-00-21.3.1
 - www.gao.gov/products/GAO-01-1008G

- GFOA – www.gfoa.org

- IIA – www.theiia.org

Questions

